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RUEHPE/AMEMBASSY LIMA 9808  
RUEHQT/AMEMBASSY QUITO 1677  
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UNCLAS SECTION 01 OF 02 CARACAS 000264

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SUBJECT: DETAILS OF VENEZUELAN ENERGY COOPERATION AGREEMENTS  
WITH BOLIVIA AND OTHER INITIATIVES.

REF: A) CARACAS 03560, B) LA PAZ 00168

¶1. SUMMARY: On January 23 President Chavez signed two bilateral agreements with Bolivian President Evo Morales: the Broad Scope Energy Agreement and the Caracas Energy Accord. Both are aimed at expanding regional integration through the BRV's Petroamerica initiative and the consolidation of its sub-regional component Petrosur. While the Broad Scope Agreement provides the framework for increased ties and cooperation in the energy sectors for the development of the oil, gas, power, and petrochemical industries of both countries, the Caracas Energy Accord establishes the quantities of oil and fuels (primarily diesel) to be exchanged for Bolivian products (primarily soy and chicken) and spells out the terms and conditions for the exchange. Several other initiatives including, inter alia, a USD 30 million donation for social projects, 5001 scholarships for low income students, and technical cooperation exchanges were also announced/formalized on the same date. END SUMMARY.

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SUPPLY AND SALES TERMS  
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¶2. According to the MFA's website, under the Caracas Energy Accord, Venezuela agreed to supply up to 200,000 barrels per month (b/m) of oil, refined products, and LPG (Liquefied Petroleum Gases) to Bolivia. This volume is adjustable based on Bolivia's internal demand. The press reported that Rafael Ramirez, Venezuela's Energy Minister and President of Venezuela's national oil company PDVSA, estimated Bolivia's demand for diesel to be around 5,000 barrels per day (b/d) or approximately 150,000 b/m.

¶3. This bilateral supply agreement is subject to the availability of production by Venezuela and decisions adopted by OPEC on assigned quotas. The agreement is reserved to national energy companies of both countries with the pre-approved exception by Venezuela of Bolivian private companies in the logistics and transportation of product. The agreement is to be managed by PDVSA and subject to company policies.

¶4. Sales by PDVSA to YPFB (Yacimientos Petroliferos Fiscales Bolivianos), Bolivia's national energy corporation, will be paid under a commercial compensation mechanism with Bolivian products through Venezuela's economic and social development bank BANDES. Among the products to be exchanged for fuels by Bolivia will be approximately 200,000 tons per

year of soy as well as up to 20,000 tons per year of chicken and other agricultural products.

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PAYMENT TERMS  
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15. Similar to most Petrocaribe bilateral agreements, Venezuela is providing a five tier financing mechanism (only in this case the terms are based on barter values), which increases the financed portion of invoices based on the international price of oil. The minimum financing available is 5 percent of the invoice when prices are equal or below USD 5 per barrel and the maximum is 25 percent of the invoice when prices are equal or above USD 30 per barrel. The principal must be paid within 90 days of the shipment with an interest rate of 2 percent. The financed portion can be paid in fifteen years with a two-year grace period and a two percent interest rate.

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DURATION OF AGREEMENT  
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16. The Caracas Energy Accord was signed on January 23, but we understand will not go into effect until several legal and legislative formalities are met by Bolivia. The duration of the agreement is 1 year, renewable automatically for similar consecutive periods. (Note: We understand Venezuela and Bolivia signed a narrower agreement, which this agreement supersedes, on December 9, 2004 but the agreement was never fully implemented. End Note.) The Broad Scope Energy Agreement will have a duration of 4

CARACAS 00000264 002 OF 002

years.

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OTHER INITIATIVES  
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17. President Chavez also announced a donation of USD 30 million to support social projects in Bolivia as well as the opening of offices by PDVSA, BANDES, and BIV (Banco Industrial de Venezuela) in Bolivia. While PDVSA and BANDES would manage the exchange of products under the Caracas Energy Accord, the BIV office would provide loans and guarantees to Bolivian importers of Venezuelan goods and services.

18. Two other agreements signed were the Higher Education Cooperation Agreement and the Technical Cooperation Agreement on Health. Under these agreements Venezuela donates 5,000 scholarships for low-income Bolivian students to conduct undergraduate and graduate studies in Venezuela in areas ranging from health to energy, business administration, engineering, and tourism. (Note: While the agreement provides for 5,000 scholarships Chavez quipped that he would provide 5,001 as Fidel had committed to 5000. End Note.)

19. Another important agreement signed was the Agricultural and Rural Development Agreement, under which the two countries will exchange scientists and experts in agro-industry, forestry, land ownership, and water management. This agreement is aimed at searching for new areas of "economic complementation" between the two countries, especially those related to agricultural products such as soy, coffee, cocoa, and other processed goods.

110. Venezuela and Bolivia also signed a cooperation agreement on education and sports. Under this agreement Venezuela provides support to Bolivia in these areas with experience gained from BRV funded missions such as Robinson I and II (to improve adult literacy), Ribas (fosters completing of high school degrees) as well as with Venezuela's Bolivarian schools.

